

PUBLIC DISCLOSURE

MARCH 2, 2012

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

**CONTINENTAL HOME LOANS INC.
ML13677**

**175 PINELAWN ROAD, SUITE 400
MELVILLE, NY 11747**

**DIVISION OF BANKS
1000 WASHINGTON STREET
BOSTON, MA 02118**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this mortgage lender. The rating assigned to this mortgage lender does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this mortgage lender.

GENERAL INFORMATION

Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' ("Division") regulation 209 CMR 54.00, Mortgage Lender Community Investment ("MLCI"), require the Division to use its authority when examining mortgage lenders subject to its supervision who have made 50 or more home mortgage loans in the last calendar year, to assess the mortgage lender's record of helping to meet the mortgage credit needs of the Commonwealth, including low- and moderate-income neighborhoods and individuals, consistent with the safe and sound operation of the mortgage lender. Upon conclusion of such examination, the Division must prepare a written evaluation of the mortgage lender's record of meeting the credit needs of the Commonwealth.

This document is an evaluation of the MLCI performance of **Continental Home Loans Inc. ("CHL")** prepared by the Division, the mortgage lender's supervisory agency, as of **March 2, 2012**.

SCOPE OF EXAMINATION

An onsite evaluation was conducted using examination procedures, as defined by MLCI. A review of the Division's records, as well as the mortgage lender's public MLCI file, did not reveal any complaints.

The MLCI examination included a comprehensive review and analysis, as applicable, of CHL's:

- (a) origination of loans and other efforts to assist low and moderate income residents, without distinction, to be able to acquire or to remain in affordable housing at rates and terms that are reasonable considering the lender's history with similarly situated borrowers, the availability of mortgage loan products suitable for such borrowers, and consistency with safe and sound business practices;
- (b) origination of loans that show an undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units;
- (c) efforts working with delinquent residential mortgage customers to facilitate a resolution of the delinquency; and
- (d) other efforts, including public notice of the scheduling of examinations and the right of interested parties to submit written comments relative to any such examination to the Commissioner, as, in the judgment of the Commissioner, reasonably bear upon the extent to which a mortgage lender is complying with the requirements of fair lending laws and helping to meet the mortgage loan credit needs of communities in the Commonwealth.

MLCI examination procedures were used to evaluate CHL's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered CHL's lending and community development activities for the period of January 2009 through December 2011. The data and applicable timeframes for the Lending Test and the Service Test are discussed below.

The Lending Test evaluates the mortgage lender's community investment performance pursuant to the following five criteria: geographic distribution of loans, lending to borrowers of different incomes, innovative and flexible lending practices, fair lending, and loss of affordable housing.

Home mortgage lending for 2010 and 2011 is presented in the geographic distribution, lending to borrowers of different incomes and the Minority Application Flow tables. Comparative analysis of the mortgage lender's lending performance for the year of 2010 is provided because it is the most recent year for which aggregate HMDA lending data is available. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of loan demand. It includes lending information from all HMDA reporting lenders which originated loans in the Commonwealth of Massachusetts.

In addition to gathering and evaluating statistical information relative to a mortgage lender's loan volume, the MLCI examination also reflects an in depth review of the entity's mortgage lending using qualitative analysis, which includes, but is not limited to: an assessment of the suitability and sustainability of the mortgage lender's loan products by reviewing the lender's internally maintained records of delinquencies and defaults as well as information publicly available through the Federal Reserve Banks and through local Registries of Deeds and through other sources available to the examination team. The examination included inspection of individual loan files for review of compliance with consumer protection provisions and scrutiny of these files for the occurrence of disparate treatment based on a prohibited basis.

The Service Test evaluates the mortgage lender's record of helping to meet the mortgage credit needs by analyzing the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products, the extent and innovativeness of its community development services, and, if applicable, loss mitigation services to modify loans and/or efforts to keep delinquent home borrowers in their homes.

MORTGAGE LENDER'S MLCI RATING:

This mortgage lender is rated "Satisfactory."

- The geographic distribution of the lender's loans reflects more than reasonable dispersion in low- and moderate-income census tracts as it is reflective of the distribution of owner occupied housing in those census tracts.
- The distribution of borrower reflects, given the demographics of Massachusetts, a more than reasonable record of serving the credit need among individuals of different income levels, including low- and moderate-income.
- CHL offers several flexible lending products, which are provided in a safe and sound manner to address the credit needs of low-and moderate-income individuals.
- Fair lending policies and practices are considered reasonable.
- The Lender has a limited number of Community Development Services.

PERFORMANCE CONTEXT

Description of Mortgage Lender

CHL was incorporated on March 18, 2004 in New York as sub-chapter “S” corporation and was granted a license by the Division in November 2008. The main office is located at 175 Pinelawn Road, Suite 400 in Melville, New York. The lender maintains one branch office within Massachusetts in Methuen, which is located in a moderate income census tract. The company is licensed to conduct business in 20 states, and Massachusetts loans account for less than three percent of its overall business volume.

CHL offers a variety of mortgage loan products to meet the needs of the Commonwealth’s borrowers. The majority of closed loans are sold to secondary market investors with servicing released. CHL is a HUD-Approved Title II lender for the Federal Housing Administration, as well as an approved FHLMC seller and FNMA seller/servicer. In addition, the lender is a GNMA seller/servicer and markets some of its HUD insured and VA guaranteed closed loans through the issuance of GNMA certificates, retaining the servicing rights on some of these loans.

Underwriting and major functions in the loan process are done at CHL’s main office in Melville, New York. Approved loans are funded through available warehouse lines of credit. CHL acts as a retail lender and also acts as a broker on conventional mortgage loan applications to other lenders.

Demographic Information

The MLCI regulation requires mortgage lenders to be evaluated on their performance within the Commonwealth of Massachusetts. Demographic data is provided below to offer contextual overviews of economic climate along with housing and population characteristics for the Commonwealth of Massachusetts.

DEMOGRAPHIC INFORMATION*						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A
Geographies (Census Tracts)	1,361	8.4	21.7	46.1	23.4	0.4
Population by Geography	6,349,097	5.8	20.5	47.6	26.0	0.1
Owner-Occupied Housing by Geography	1,508,248	1.6	12.8	54.0	31.6	0.0
Family Distribution by Income Level	1,587,537	20.5	17.7	22.3	39.5	0.0
Distribution of Low and Moderate Income Families throughout AA Geographies	606,419	10.0	29.4	46.2	14.4	0.0
Median Family Income	\$65,318	Median Housing Value		\$209,519		
2010 HUD Adjusted Median Family Income	\$83,413	Unemployment Rate		6.9%**		
Households Below Poverty Level	9.8%					

*Source: PCI Corporation Inc., CRA Wiz, Data Source: 2000 US Census

**as of 12/11

Based on 2000 Census data, the Commonwealth of Massachusetts has a total population of just over 6.3 million people and a total of 2.6 million housing units. Of the total housing units, 1.5 million or 57.5 percent are owner-occupied, 935,332 or 35.7 percent are rental-occupied, and 6.8 percent are vacant units.

There are 2.4 million households in the Commonwealth with a median household income of \$53,686 according to the 2000 Census. Over 40 percent of the households are classified as low- and moderate-income. In addition, 9.8 percent of the total number of households are living below the poverty level. Individuals in these categories may find it challenging to qualify for traditional mortgage loan products.

Households classified as “families” total slightly over 1.5 million. Of all family households, 20.5 percent are low income, 17.7 percent are moderate income, 22.3 percent are middle income, and 39.5 percent are upper income. The median family income according to the 2000 census was \$65,318. The Housing and Urban Development (“HUD”) adjusted median family income is \$83,413. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth of Massachusetts contains 1,361 Census tracts. Of these, 114 or 8.4 percent are low-income; 295 or 21.7 percent are moderate-income; 628 or 46.1 percent are middle-income; 319 or 23.4 percent are upper-income; and 5 or 0.4 percent are NA or have no income designation. The five census tracts with no income designation are located in Bridgewater (a correctional facility), Boston (islands in Boston Harbor), Amherst (U MASS campus), Harvard (Fort Devens), and Grafton (Tufts Veterinary School). These Census tracts contain no housing units and will not be included in this evaluation since they provide no lending opportunities.

The median housing value for Massachusetts was \$209,519 according to the 2000 Census. However, recent figures from the Warren Group, publishers of the Banker and Tradesman, show the median price for a single-family increased to \$289,000 in October 2010, up 3.2 percent from \$280,000 in 2009. Fluctuating housing values have a direct effect on the types of financial products adequate for homeowners and property buyers.

The unemployment rate for the Commonwealth of Massachusetts as of December 2011 stood at 6.9 percent, down from 8.3 percent in December 2010 and the lowest since January 2009. Employment rates would tend to affect a borrower’s ability to remain current on mortgage loan obligations and also correlates to delinquency and default rates.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

CHL's lending efforts are rated under the five performance criteria: Geographic Distribution, Borrower Characteristics, Innovative or Flexible Lending Practices, Fair Lending Policies and Procedures, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the mortgage lending of CHL.

CHL's Lending Test performance was determined to be "High Satisfactory" at this time.

I. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well CHL is addressing the credit needs throughout the Commonwealth of Massachusetts' low-, moderate-, middle-, and upper-income Census tracts.

The mortgage lender's geographic distribution of loans is consistent with the distribution of owner occupied housing units and exceeds the aggregate distribution of loans for low- and moderate-income borrowers in the Commonwealth. Overall, CHL's distribution of loans reflects a good distribution of loans in the Commonwealth.

The following table presents CHL's HMDA reportable loans as well as the 2010 aggregate data (exclusive of CHL). In addition, the table also reflects the percentage of owner-occupied housing units in each of the Census tract income categories.

Census Tract Income Level	<i>Distribution of HMDA Loans by Income Category of the Census Tract</i>							
	% Total Owner-Occupied Housing Units	CHL 2010		Aggregate Lending Data (% of #) 2010	CHL 2011		CHL Total	
		#	%		#	%	#	%
Low	1.6	14	15.4	1.3	12	14.5	26	14.9
Moderate	12.8	23	25.3	10.0	27	32.5	50	28.7
Middle	54.0	35	38.5	49.4	34	41.0	69	39.7
Upper	31.6	19	20.8	39.3	10	12.0	29	16.7
Total	100.0	91	100.0	100.0	83	100.0	174	100.0

Source: 2010 and 2011 HMDA Data and 2000 U.S. Census

As reflected in the above table, the highest concentration of residential loans was originated in the moderate and middle-income census tracts for both 2010 and 2011, although 85.6 percent of the area's owner-occupied housing units are in middle and upper-income census tracts.

Of the 91 loans originated in 2010, 40.7 percent were in the low and moderate-income geographies. This percentage is well above the percentage of the area's owner occupied housing units in low and moderate-income geographies at 14.4 percent, as well as the aggregate lending percentage of 11.3 percent.

Through 2010 and 2011 the lender's loan volume in Massachusetts remained relatively level and represents less than 3 percent of CHL's overall lending volume. The performance is somewhat mitigated by the overall low number of originations. However, in general, the geographic distribution of residential loans reflects more than reasonable dispersion throughout the Commonwealth with solid concentration in low- and moderate-income Census tract geographies.

II. Borrower Characteristics

The distribution of loans by borrower income levels was reviewed to determine the extent to which the lender is addressing the credit needs of the Commonwealth's residents.

CHL achieved more than reasonable record of serving the mortgage credit needs among borrowers of different income levels based on the areas' demographics and a comparison to aggregate lending data in Massachusetts.

The following table shows HMDA-reportable loans by borrower income in comparison to the aggregate, and the percentage of total families within the Commonwealth in each respective income group.

Median Family Income Level	Distribution of HMDA Loans by Borrower Income							
	% of Families	CHL 2010		Aggregate Lending Data (% of #) 2010	CHL 2011		CHL Total	
		#	%		#	%	#	%
Low	20.5	14	15.4	4.4	17	20.5	31	17.8
Moderate	17.7	31	34.1	15.3	28	33.7	59	33.9
Middle	22.3	23	25.2	22.7	23	27.7	46	26.4
Upper	39.5	22	24.2	42.8	15	18.1	37	21.3
NA*	0	1	1.1	14.8	0	0.0	1	0.6
Total	100.0	91	100.0	100.0	83	100.0	174	100.0

Source: 2010 & 2011 HMDA Data and 2000 U.S. Census *Income Not Available

As shown in the above table, moderate-income borrowers accounted for the highest proportion of total loans by CHL, with 34.1 and 33.7 percent originated in 2010 and 2011, respectively. The proportion of total loans to moderate-income borrowers exceeded the percentage of families as well as the aggregate lending in those income tracts for both years.

CHL's lending to low-income borrowers at overall 17.8 percent was slightly below yet comparable to the percentage of families. This is notable as almost half of all low-income families are below the poverty level. This performance is somewhat mitigated by the low number of originations. However, considering the high housing costs throughout Massachusetts, the percentage of loans to low- and moderate-income borrowers reflects the mortgage lender's willingness and ability to lend to all segments of the population.

III. Innovative or Flexible Lending Practices

CHL offers a number of flexible lending products, which are provided in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

CHL's business model is based on a heavy concentration of FHA and VA loan products. FHA products provide competitive interest rates, smaller down payments for low and moderate income first time homebuyers and existing homeowners. During the review period of 2010-2011 the lender closed 173 loans, of which 69 percent were government insured or guaranteed products.

IV. Fair Lending

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-103 and Regulatory Bulletin 5.3-101. The mortgage lender's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. The review included, but was not limited to, review of written policies and procedures, interviews with mortgage lender personnel, and individual file review. No evidence of disparate treatment was identified.

CHL has established an adequate record relative to fair lending policies and practices.

Fair lending is incorporated in CHL's company-wide policy and procedures. The policy states that employees will not discriminate against loan applicants on the basis of race or color, national origin, religion or creed, sex, marital status, familial status, sexual orientation, handicap or disability, or age, or the fact that all or part of the applicant's income is derived from a public assistance program, or has in good faith exercised any right under the Consumer Credit Protection Act.

All loans are continually monitored for fair lending compliance, by internal quality control unit that reviews samples of loan files before and after closing. Periodic independent audits are part of the internal control process.

All new employees must attest to having received and reviewed a copy of the company's Fair Lending Policy and Procedures. All employees receive on-site training at least once a year and the key points are also reiterated through sales and production department meetings. CHL's lending policies and procedures apply to all employees and are constantly changing to keep pace with the various regulatory changes. Branch offices dial into those meetings via webex conference presentation.

MINORITY APPLICATION FLOW

For 2010 and 2011, CHL received 209 HMDA-reportable loan applications from within the Commonwealth of Massachusetts. Of these applications, 36 or 17.2 percent were received from minority applicants, of which 30 or 83.3 percent resulted in originations. CHL received 89 or 42.6 percent of HMDA reportable applications from ethnic groups of Hispanic origin, of which 68 or 76.4 percent were originated. This compares to the 83.3 percent overall ratio of originated loans by the lender.

Demographic information for Massachusetts reveals that the total ethnic and racial minority population stood at 18.12 percent of the total population in 2010. This segment of the population is comprised of 6.75 percent Hispanic or Latino and 11.38 racial minorities: 5.01 percent Black; 3.73 percent Asian; 0.18 percent American Indian; 0.03 percent Native Hawaiian/Other Pacific Islander; and 2.42 percent identified as Other Race.

Refer to the following table for information on the mortgage lender's minority application flow as well as a comparison to aggregate lenders throughout the Commonwealth of Massachusetts. The comparison of this data assists in deriving reasonable expectations for the rate of applications the mortgage lender received from minority applicants.

MINORITY APPLICATION FLOW								
RACE	CHL 2010		2010 Aggregate Data		CHL 2011		CHL Total	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	1	0.9	659	0.1	1	1.0	2	1.0
<i>Asian</i>	2	1.8	21,944	4.8	2	2.1	4	1.9
<i>Black/ African American</i>	11	9.8	8,469	1.8	16	16.5	27	12.9
<i>Hawaiian/Pacific Islander</i>	0	0.0	482	0.1	0	0.0	0	0.0
<i>2 or more Minority</i>	0	0.0	102	0.1	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	0	0.0	4,981	1.0	3	3.1	3	1.4
Total Minority	14	12.5	36,637	7.9	22	22.7	36	17.2
<i>White</i>	96	85.7	327,342	71.6	74	76.3	170	81.4
<i>Race Not Available</i>	2	1.8	93,725	20.5	1	1.0	3	1.4
Total	112	100.0	457,704	100.0	97	100.0	209	100.0
ETHNICITY								
<i>Hispanic or Latino</i>	41	36.6	9,682	2.1	48	49.5	89	42.6
<i>Not Hispanic or Latino</i>	66	58.9	349,851	76.4	48	49.5	114	54.5
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	1	0.9	3,674	0.8	0	0.0	1	0.5
<i>Ethnicity Not Available</i>	4	3.6	94,497	20.7	1	1.0	5	2.4
Total	112	100.0	457,704	100.0	97	100.0	209	100.0

Source: PCI Corporation CRA Wiz, Data Source: 2000 U.S. Census Data

At 12.5 percent, CHL's performance was above the 2010 aggregate data for racial minority applicants. The mortgage lender's performance was also significantly above the aggregate for applications from ethnic minorities. CHL received 43.1 percent of its applications from ethnic minorities while the aggregate received 2.9 percent. Furthermore, the number of racial and ethnic minority applicants at CHL increased from 2010 to 2011.

V. **Loss of Affordable Housing**

This review concentrated on the suitability and sustainability of mortgage loans originated by CHL by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Information provided by the lender was reviewed as were statistics available on delinquency and default rates for mortgage loans. Additionally, individual mortgage loans were tracked for their status through the Division's foreclosure database.

An extensive review of information and documentation, from both internal and external sources as partially described above, did not reveal lending practices or products that showed an undue concentration or a systematic pattern of lending, including a pattern of early payment defaults, resulting in the loss of affordable housing units. Further, delinquency rates were found to be consistent with industry averages.

SERVICE TEST

The service test evaluates a mortgage lender's record of helping to meet the mortgage credit needs in the Commonwealth by analyzing both the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products; the extent and innovativeness of its community development services; and loss mitigation services to modify loans or otherwise keep delinquent home loan borrowers in their homes. Community development services must benefit the Commonwealth or a broader regional area that includes the Commonwealth.

CHL's Service Test performance was determined to be "Needs to Improve" at this time.

Mortgage Lending Services

The Division evaluates the availability and effectiveness of a mortgage lender's systems for delivering mortgage lending services, pursuant to the following criteria:

- (a) the availability and effectiveness of systems for delivering mortgage lending services (e.g., Internet, telephone solicitation, direct mail) in low- and moderate-income geographies and to low- and moderate-income individuals, including, to the extent applicable, the current distribution of the mortgage lender's branches among low-, moderate-, middle-, and upper-income geographies;
- (b) efforts to work with delinquent home mortgage loan borrowers to facilitate a resolution of the delinquency, including the number of loan modifications, the timeliness of such modifications, and the extent to which such modifications are effective in preventing subsequent defaults or foreclosures; and
- (c) the range of services provided in low-, moderate-, middle-, and upper- income geographies and the degree to which the services are tailored to meet the needs of those geographies.

CHL provides an effective delivery of mortgage lender services, including FHA and VA products, that are accessible to geographies and individuals of different income levels in the Commonwealth. Customers can apply to CHL for a mortgage over the telephone, via internet, or in person. CHL's local branch office is located at 264 Broadway in Methuen, Massachusetts in a moderate-income geography.

Business development relies primarily on real estate agent referrals and repeat customers. CHL does no advertising in Massachusetts. In order to reach a larger demographic, CHL maintains a local office with bilingual staff within a largely Hispanic moderate income census tract area. Also, CHL maintains a relationship with the Police Benevolent Association in Boston.

As CHL does not routinely service mortgage loans, it would not work directly with delinquent borrowers. Therefore, this review would not include an evaluation of loan mitigation and modification efforts as the mortgage lender would not be accountable for such action. However, as described above, lending practices and products did not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable.

Community Development Services

A community development service is a service that:

- (a) has as its primary purpose community development; and
- (b) is related to the provision of financial services, including technical services

The Commissioner evaluates community development services pursuant to the following criteria:

- (a) the extent to which the mortgage lender provides community development services; and
- (b) the innovativeness and responsiveness of community development services.

The Massachusetts branch manager has performed several informal housing seminars for a church group. She has included introduction to government programs and CHL's 203k rehabilitation loan product in her meeting agenda.

Qualified Investments

A Qualified Investment for the purposes of this MLCI evaluation is a lawful investment, deposit, membership share, or grant that has as its primary purpose community development. The evaluation considered (1) the number of investments and grants, (2) the extent to which community development opportunities have been made available to the institution, and (3) the responsiveness of the institution's community development grants to the assessment area's needs.

CHL does not currently engage in any qualified community development investments in Massachusetts.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the MLCI regulation, requires all mortgage lenders to take the following actions within 30 business days of receipt of the MLCI evaluation of their mortgage lender:

- 1) Make its most current MLCI performance evaluation available to the public.
- 2) Provide a copy of its current evaluation to the public, upon request. In connection with this, the mortgage lender is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the mortgage lender's evaluation, as prepared by the Division of Banks, may not be altered or abridged in any manner. The mortgage lender is encouraged to include its response to the evaluation in its MLCI public file.

The Division of Banks will publish the mortgage lender's Public Disclosure on its website no sooner than 30 days after the issuance of the Public Disclosure.